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¶1. (U) Summary. This is Volume 8, issue 44 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:
- CPIX Inflation Drops
- SA Receives 'Negative' Rating
- Mboweni: South Africans Ignorant of Crisis
- Corn Farming Not Profitable in Current Climate
- SA Unemployment Rate Higher
- SACU in EU-South Africa Talks Crossfire
- Polokwane International Airport Now Open
- Ford South Africa Set to Reduce Production Platforms and Target Global Export Market
- Eskom Names Pre-qualified Developers for Independent Base-load Program
- Sasol Seeks Greater Upstream Independence
- Rehabilitating Defunct Mines Proves Costly for DME

End Summary.

CPIX Inflation Drops

¶2. (U) CPIX inflation (CPI less mortgage interest) in South Africa dropped for the first time in twelve months, falling from 13.6% in August to 13.0% in September. Headline CPI inflation fell from 13.7% to 13.1%. Forecasters had predicted that both measures would ease to 13.3%. Experts say that CPIX inflation peaked in August and will continue to fall in coming months. While rand weakness and volatility pose key inflationary risks, the South African Reserve Bank (SARB) is likely to remain focused on the expected improvement in the medium-term inflation outlook, as slower economic growth and a new CPI methodology should pull inflation lower. The better-than-expected inflation supports the notion that interest rate relief may come during the first six months of 2009, even as inflation remains above the 6% inflation target ceiling. (ABSA Capital Research, October 30, 2008)

SA Receives 'Negative' Rating

¶3. (U) Rating and Investment Information Incorporated (R&I) has

revised its rating outlook for South Africa from stable to negative. South Africa's domestic and foreign currency debt ratings remain unchanged at "A" and "A-" respectively. The National Treasury observed that the South African government is aware of the challenges regarding the current account deficit, inflationary environment, and GDP growth outlook of the country. "These challenges are not unexpected and government took appropriate measures early on to address them," said a Treasury official, adding, "these [measures] include significantly reducing the level of government debt and increasing official reserves through sustained prudent fiscal and monetary policies. As a result, South Africa is well positioned to weather the current global financial crisis." R&I was the first and remains the only major rating agency to rate South Africa's foreign currency debt issue in the single "A" category ("A-" with a stable outlook) since December 2006. (I-Net Bridge, October 24, 2008)

Mboweni: South Africans Ignorant of Crisis

¶4. (U) SARB Governor Tito Mboweni, speaking at the Bond Exchange's annual Spire Awards, delivered three stern messages: inflation targeting should be left alone; a weak rand should not be pursued; and a larger fiscal deficit would not be appropriate. He said that Qand a larger fiscal deficit would not be appropriate. He said that people calling to abandon inflation targeting, weaken the rand, and rack up larger fiscal deficits should be "prayed for." Mboweni said that sound macro-economic policies and strong regulation, including unpopular exchange controls, will ensure that South Africa is able to ride out the global financial storm better than most other countries. Mboweni also said that South Africans are not sufficiently aware that they are living through a severe global crisis because they are relatively protected from its impact. "I

can tell you we are living through a major crisis not seen maybe since the 1930's," he emphasized. "The world as we know it has changed, but it is difficult to make sense in South Africa," he said. (Beeld, October 24, 2008)

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Corn Farming Not Profitable in Current Climate
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¶5. (U) The Department of Agriculture's Crop Estimates Committee said the land area upon which farmers might plant could be cut to from last year's 2.7 million hectares to 2.5 million hectares. The Committee attributed this to limited availability of credit, higher input costs and lower international corn prices. Overall input costs have increased 90% since last September. Grain SA Economist Nico Hawkins said fertilizers, chemicals and farm equipment costs have risen. However, the price of corn has not increased at all for the past 16 months, said Hawkins. At current prices, farmers might consider switching to crops such as soybeans and sunflowers. It is expected that a global recession would have a significant impact on corn prices, especially in China and the US, the latter of which subsidizes about a third of its crop for the production of ethanol. (Business Times, October 26, 2008)

SA Unemployment Rate Higher

¶6. (U) Statistics South Africa's (StatsSA) Quarterly Labor Force Survey (QLFS) reports that the official unemployment rate edged up from 23.1% in the second quarter of 2008 to 23.2% in the third quarter. The number of people with a job decreased from 13,729 million in the second quarter to 13,655 million in the third quarter. A sharp 7.1% drop in informal sector employment, which shed 165,000 jobs, is to blame for the higher unemployment rate. This informal sector job loss more than offset a gain of 24,000 new jobs in formal sector employment, which excludes agriculture. Most sectors of the economy shed jobs between July and September, reported the QLFS, with the biggest cuts taking place in finance,

manufacturing and mining. Employment in the mining sector dropped 9.2% to 314,000, while employment in the finance sector fell 3.3% to 1.632 million. Employment in the construction sector, the economy's fastest growing sector, dived 3.2% to 1.102 million. South Africa's unemployment rate peaked at 29.3% in 2003 and has hovered around 23.1% since 2006. (Business Day and Beeld, October 29, 2008)

SACU in EU-South Africa Talks Crossfire

¶7. (U) Fears persist that South Africa might use the implementation of the South African Custom Union's (SACU) Economic Partnership Agreement (EPA) with the European Union (EU) as a reason to break up SACU. SACU was split last year when Botswana, Lesotho, Namibia and Swaziland broke ranks with South Africa and signed the interim EPA, which brings bilateral trade with Europe into conformity with WTO rules. SACU members are prohibited under the SACU membership agreement from entering into new preferential trade agreements with third parties without the consent of other members. Sources say Qthird parties without the consent of other members. Sources say South Africa may use the split over the EPA to break up the union and escape SACU's customs-revenue sharing agreement. South Africa pays large sums of money to the other SACU members under the agreement. These payments equal as much as half of the government budgets in Lesotho and Swaziland and a still significant amount of the budgets in Botswana and Namibia. A source close to the EPA talks said, "There is political will to kill the union because of the customs payments. Everyone seems to agree that the EPA will not include South Africa, but that means South Africa also does not want the others to sign." The death of SACU would have grave economic implications for all of the member states. The governments of Lesotho and Swaziland rely heavily on SACU revenues. In the absence of a WTO-compatible EPA, Botswana and Namibia's exports to Europe revert to GSP status, under which tariffs are even steeper. The loss of these revenues and trade preferences could have severe economic impact on all four countries. (Business Day, October 28, 2008)

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Polokwane International Airport Now Open

¶8. (U) The new Polokwane International Airport was opened at a special event on October 21. The airport is owned and managed by Limpopo province. Authorities are hopeful that the new facility will attract more foreign tourists and contribute to the province's economy during and beyond the 2010 FIFA World Cup. It is expected that the Polokwane Airport will service about 200,000 passengers per year. (Travel Hub Report, October 27, 2008)

Ford South Africa Set to Reduce Production
Platforms and Target Global Export Market

¶9. (U) Ford Motor Company of Southern Africa CEO Hal Feder announced that Ford is flattening its global manufacturing structure and reducing its number of production platforms from 25 to 9. "We'll do this by being smarter, and without diminishing the number of brands we have," Feder noted. A "platform" is a shared base on which several models may be built. The new Fiesta, to be launched at the Johannesburg International Motor Show next month, represents one of Ford's new platforms. "By doing this, we'll see a significant improvement in cost - we'll be able to buy parts in millions, and not thousands - and we'll be able to improve the quality of our vehicles," said Feder. The changes at Ford SA will ensure that about 92% of the company's showroom will be new or refreshed by mid-2009. These developments are part of Ford's new global product development and product revitalization strategy, called the One Ford Vision - a single global company designing and building cars for a single, global customer base, not divided by regional or national borders. Ford will produce 65,000 units from four platforms in

2008, and 110,000 units from one platform in 2011. Ford plans to sell 20,000 of these final units locally, and export 90,000 units to Africa and Europe. (Engineering News, October 24, 2008)

Eskom Names Pre-qualified Developers
for Independent Base-load Program

¶10. (U) Eskom released the names of the 23 national and international developers that it unconditionally pre-qualified to produce electricity under the multi-site base-load independent power producer program. Eskom Demand-Side Management General Manager Andrew Etzinger confirmed that the bids predominately featured conventional coal technologies. He noted that developers would submit detailed plant design and environment mitigation steps during the next round of the process. A liquefied natural gas plant, a liquefied petroleum plant, a hydro power plant, and a solar plant are under consideration. The list includes a mix of French, Chinese, Indian, and other developers, but no U.S. firms. These developers are scheduled to receive requests for proposals at the end of November. The final bids would close in May 2009 and deals would be concluded in the first quarter of 2010. Meanwhile, Independent Power South Africa (IPSA) announced that it was in advanced discussions to sell four gas turbines, previously intended Qadvanced discussions to sell four gas turbines, previously intended for its Coega project, near Port Elizabeth. IPSA said it was still committed to developing a 1,600 MW combined cycle gas turbine plant there, but delays in implementation of the project forced it to release turbines it had committed to acquire. (Engineering News, October 24, 2008)

Sasol Seeks Greater Upstream Independence

¶11. (U) Petro-chemical giant Sasol has shifted its strategic emphasis from downstream gas-to-liquids (GTL) and coal-to-liquids (CTL) processing to discovery, development, and possible acquisition of natural gas reserves, note analysts. This could indicate an end to the Sasol-Chevron joint venture, formed in 2000 to combine Chevron's access to gas reserves with Sasol's ability to "monetize" stranded gas assets. The venture has seemingly failed to live up to expectations, having delivered few opportunities for GTL. In fact, the first commercial plant has been developed by Sasol in partnership with Qatar Petroleum, rather than Chevron, while Chevron

is whittling down its stake in its Nigerian joint venture. Sasol's ambitious three-year capital expenditure program of $700 million probably includes a "war chest" for upstream acquisition. In recent months, Sasol has acquired assets in Australia, Mozambique, Gabon, and Papua New Guinea. Sasol has started drilling offshore of Mozambique and it has been awarded a new block immediately west of the successful Temane and Pande blocks. Sasol CEO Pat Davies said Sasol needs "to get our hands on more and more gas resources so that we can build these integrated GTL projects in various parts of the world into our future." He also stressed that the group is confident of its ability to deploy GTL, arguing that ramp-up problems are under control and the $1 billion plus Oryx GTL plant in Qatar is at hand. (Engineering News, October 24, 2008)

Rehabilitating Defunct Mines Proves
Costly for DME

¶12. (U) Department of Minerals and Energy (DME) Chief Director of Economic Analysis Tseko Nell said this week that "Despite the economic gains derived from the mining industry, mining activities have also resulted in disastrous environmental acts." Nell noted that mining is the leading generator of solid waste, and that the waste generated by mining has a direct and indirect impact on air, biological resources, and land. The DME is spending millions of rand to rehabilitate and manage derelict South African mines to

which no owners lay claim. Nell said the DME has commissioned the Council for Geo-Science to develop a national strategy to manage abandoned mines. The strategy is aimed at developing and maintaining a database of the mines, and will also rank the mines in the order of their potential to have an impact on the environment, health and safety of the local communities. Nell also noted that DME is in the process of developing a strategy for regional mine closures. (Mining Weekly October 24-30, 2008)

LA LIME